

Microsoft Pre-Planning Meeting
March 31, 2005

Weaver, Welsh, Burt, George, Unger

Steve and Manal

Main points by Weaver: Options in the transfer of rights

1. Transfer vendor rights
2. I/C Agreements to Tnsf Risks / BEN of vendor Rights. You can't move the vendor contracts. Every vendor moves. Corp says 'CFC, you are going to do the CD part of this, and we can't move them now but you are obligated to take all the benefits and the risks, relative to the CDs. You have to pay for the CDs, you have to bear the costs of insuring the CDs, when they aren't in the Vendors' possession'. All intercompany agreement. Third parties would have no idea. Corp remains primarily liable for products because they can't move the contracts. Getting in under the new regs? Withholding tax problems?
3. C/S only what you make – mandates an immediate buy-in, but a multiple buy-in, exploiting 70% of a given product. There will need to be three buy-ins, which begin depreciating from Day 1. Technical issue of a deemed royalty? Like a deferred payment? If the contingency is not met, then MS never gets the rights?

Better than nothing or worse than nothing to do No.3? Consensus is better than nothing, even though you are under the new regs.

Fully loaded payment would be due at full capacity.

There hasn't been a property transfer, as the right has not matured?

Is there a deemed US to PR royalty risk? Either there are two transactions (and two buy-ins) or there is a royalty.

Benefit to protecting part of the buy-in, but (setting aside implementation hassles) a partial buy-in would be preferable.

Can you transfer one term of a contract? No, you transfer the whole terms of the contract.

New company won't even have a chart of accounts for probably 18 months. Shadow books necessary.

Could you buy in to just part of the product lines? 70% of Windows, 30% of MSN

If we write an opinion on this we would want to say that this is going to end at some period of time. The interim period can't become the long-term reality. There has to be

**Government
Exhibit**

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something substantial behind the idea that PR actually sold the CDs and didn't just get a royalty. What can we do with the third parties.

They are going to have to maintain the agreements with 3rd party vendors. But once they ramped up, PR will have the agreements. So, then we'll have #1. (Welsh)

What can we do to make this thing real? Notify the third parties at a minimum. Go out and do something substantial, so go out and use insurance. Point to a contract with a third party insurance, so that bills of lading, insurance, etc shows that something real is being done. Could PR pay Corp for insurance? Does that give us the 3rd party link that we want? Would we put a self-insurance agreement in place?

Renegotiation will add complexity to the system. You need something meaningful to a third party, to add 'reality' to the change. If we are being asked to opine on the income characterist, this is the hardest thing to have to do. The hardest legal thing we are being asked to do.

For tomorrow: Power cables, 20 print-outs of final, brown paper,

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